

# Royal NIVRA

## Annual report 2001-2002

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## **Auditors should pay more attention to the integrity of management**

**NIVRA would certainly welcome an independent public watchdog with sharp teeth, such as the Financial Markets Authority. The professional organisation itself issues independence rules and oversees stringent peer reviews. 'And one of the things an auditor could do is pay more attention to the integrity of a company's management,' says NIVRA President Piet Hoogendoorn.**

For the accounting profession, the year under review was characterised by major financial scandals and the questions on the role of accountants raised during the parliamentary investigation into the construction industry. Piet Hoogendoorn: 'Over the past few years, the work of accountants has been the subject of wide-ranging debate. For a long time, people just assumed that accountants did their work properly, but Enron and WorldCom triggered a widespread discussion on the accountancy profession. What were the key issues in these scandals? Annual reporting, ethics of management, including senior management, and corporate governance. But the accountants' role in all this can definitely also be called into question. Sometimes it seems to me that the accountants were the most closely scrutinised of all. Who would ever have expected a global accounting firm to be completely wiped off the map? In the Netherlands, we have long held the view that scandals occurred in the US but were unlikely over here. But after the stock exchange climate deteriorated and share prices plummeted in these parts as well and a number of suspect cases emerged in the Dutch corporate landscape, questions about the role of accountants were asked during the past financial year. The long-repressed sentiments were most prominently aired during the parliamentary investigation into the construction industry.'

### **Parliamentary investigation**

'The public hearings of the parliamentary investigation committee were televised live, something which Dutch accountants are not used to at all. Confidentiality is an accountant's

middle name and accountants feel they can only discuss clients once they are no longer bound to their duty of confidentiality. That is one reason why the accountants were unable to completely clarify in the hearings what society at large is entitled to expect from them. The investigation also raised questions about the value of an audit if management's integrity is questionable. Is it possible for an accountant to play a meaningful role in such a situation? Should an accountant not pay more attention to the integrity of a company's management during the audit?

I feel that standards introduced and applied in companies in this field could play a greater role during the audit. The auditor could verify the existence of a system for upholding standards and ethical values and assess what the company stands for and whether its rules are complied with. Do its ethics permeate all corners of the company and do they form part of the management process?

The investigation also highlighted the fact that under the present audit approach, an accountant cannot do his job properly if the company does not provide him with correct information.

And we also need to ask ourselves what lessons can be learnt from things that may have gone wrong. That is why NIVRA launched a study into the role of accountants in cases of fraud and the effectiveness of the standard on fraud, which provides that accountants must report fraud if management fails to take remedial action on the irregularities that have been identified.

This study will be completed early next year because we want to incorporate the findings of the parliamentary investigation committee.

The investigation also moved the ever-present expectation gap to centre stage once again.

Many people still assume that companies cannot be violating the law if their accounts are audited. This means there is still a lot of work to be done. As a profession, we need to integrate the lessons learnt during the past year into the way we work and there is still a huge task ahead of us in terms of explaining the function and scope of the work of accountants to the outside world.'

### **Forensic accountants**

The work of forensic accountants often came up during the parliamentary investigation and before that, during the affair involving Rotterdam's former mayor Bram Peper. Again, there are numerous misconceptions about the role of accountants. 'To the public at large, it is still too much of a mystery what a forensic accountant actually does. Is he a specialised accountant? Or a private detective collaborating with the criminal investigation department? NIVRA believes the first description is the most accurate. But it is up to us to put across to the public what a forensic accountant can and cannot do, what techniques and methods he employs, how his independence is safeguarded and what his role is in relation to the client, as well as how he deals with the stakeholders and the principle of hearing both sides in a dispute. Apart from that, it is certainly debatable whether the term 'forensic' is still adequate. Forensic means 'belonging to courts of law', whereas a forensic accountant does not always work for the judiciary. NIVRA's Council is now in the process of demystifying the profession. I expect us to be able to issue a document early next year in which we state what can be expected of a forensic accountant and how he performs his engagements.'

### **Independence rules and accountants' legislation**

What has been gained from the recent scandals and the parliamentary investigation, according to Hoogendoorn, is that the debate on corporate governance has been revived. The European Commission Recommendation 'Statutory Auditors' Independence in the European Union' states among other things that the Audit Committee, whose members are appointed by and from amongst those of the company's supervisory body, must appoint the auditor and that the auditor reports to the Audit Committee. The company's management must provide information to the auditor and if it fails to do so properly, the auditor must report to the Audit Committee. The Recommendation further states that the accounting firm must segregate its

responsibilities for the audit and those for other services in order to prevent potential conflicts of interest. Furthermore, the engagement partner of the accounting firm responsible for the audit of a client must be succeeded by a colleague after seven years. The provisions of a Recommendation are not binding, unlike those of a European Directive. NIVRA and NOvAA, the professional organisation of Accountants-Accounting consultants (AAs), decided shortly after the Commission Recommendation was published to convert its provisions into mandatory regulations for Dutch accountants with effect from 1 January 2003.

'The rules enhance corporate governance in a company and strengthen the position of the statutory auditor. They provide a better balance between supervision and management. That is something we have gained from the recent debates. But another issue we have had to contend with in the recent affairs is the fact that financial reporting rules are not the same everywhere. This creates an appearance of substantial differences in results. That is why the introduction of International Accounting Standards throughout the EU from 2005 is such a good thing. It remains to be seen whether US accountants will adopt these accounting standards as well. They believe that their generally accepted accounting principles, US GAAP, are the best in the world. But what they have is a huge repository of detailed rules, which invites the danger that accountants will focus excessively on the details of the rules rather than reflect on the question whether a true and fair view is given in the end.'

The Dutch legislator, again, should refrain from laying down too many detailed rules, says Hoogendoorn. 'In the early nineties it was decided that the accountants' legislation was to be assessed after six years. In the autumn of 2000 the management consulting firm Berenschot presented its review report. It identified only a few necessary improvements, such as the introduction of independent public oversight. One of the reasons why that

recommendation was included in the report was that we had advocated it in our policy memorandum 'Quality and Transparency'. We are in favour of having an independent public oversight body, a watchdog with sharp teeth so to speak, that can launch investigations on its own initiative. That is something quite different from the professional organisation setting up an external oversight body and appointing its members. NIVRA has urged the Minister of Economic Affairs to ensure the swift introduction of external oversight and to support our independence rules. The EU has already laid down rules in its independence Recommendation and the US has recently also issued new independence rules. Suppose every EU country were to introduce rules that differed from the Commission's recommendation. That would create major discrepancies that would take the EU at least four years to harmonise. The American legislative process has proven to be a lot faster, which means that Europe risks being overtaken by the US. That is why uniformity of standards is so important in Europe. An audit engagement is increasingly an international product and it is up to the legislator to provide clear rules. As a regulatory organisation, NIVRA is able to issue regulations that are binding on all accountants relatively quickly. To be able to operate decisively, we would like the government to continue using us as a regulatory organisation.'

### **Peer reviews**

Since 1997, NIVRA has operated a system of peer reviews. Basically, peer reviews mean that all accounting firms are visited on a regular basis by a delegation of independent registeraccountants (RAs) that reviews a firm's compliance with all quality standards. Accounting firms that employ both RAs and AAs can at present still be visited by delegations from both professional organisations, but NIVRA and NOvAA are working on the mutual recognition of their review systems in order to prevent duplication. From 1997 to 2001 nearly every accounting firm was reviewed by NIVRA,

at least if they were not affiliated to the umbrella organisation of registeraccountants and accountants-accounting consultants (SRA), which oversees its members' quality management under the supervision of NIVRA. In over half of the firms visited by the NIVRA reviewers, the internal quality management system did not meet the requirements, while in a third of all firms, there was room for improvement.

'It is mainly the smaller accounting firms that are affected. A frequent side effect of peer reviews is that accountants who fail to meet the standards decide to give up their practice or reduce it to the absolute minimum. Or they sell it or merge with another firm or join the umbrella organisation for example. We have developed the Quality Improvement Course for smaller practices and, together with the umbrella organisation, we have published the Manual for Small Accounting Firms. Firms that do not meet the requirements receive assistance and a second review is held. If things are still not in order, the Peer Review Board may ask the NIVRA Council to refer the matter to the Disciplinary Committee. But that is a protracted procedure. If an accountant repeatedly fails to meet the quality requirements of his own professional organisation, you should be able to take swift action and for instance impose a fine or, in a serious case, strike him off the rolls. But the present statutory rules do not allow us to do that. This is one of the key issues in our consultations with the Ministry of Economic Affairs on the creation of new accountants' legislation.'

Peer reviews are limited to an assessment of quality management systems. What they do not do is review how an accountant is dealing with a particular client. Given the recent affairs and the impaired public confidence in accountants, would it not be a good idea to give the external reviewers the authority to inspect audit working papers? 'A peer review is not a guarantee that nothing will go wrong. The Peer Review Board might well report to the external oversight body in the future. And the legislator will most likely authorise that body to inspect audit working papers.'

## An eye for the world behind the figures

**538, 911, 3510... these figures represent not just the world of the accountant but also the collaboration between NIVRA and NOvAA, which came to fruition over the past year.**

There is more to the magical number sequences 538 and 3510, as NIVRA and NOvAA make clear in commercials and posters. Schoolchildren know that these numbers stand for a popular radio station and a much sought-after type of mobile phone. Just as accountants know everything that can lie behind a set of figures. The commercials and posters are part of the recruitment campaign used by NIVRA and NOvAA to try to kindle young peoples' interest in the accounting profession. This is by no means the only joint project between NIVRA and NOvAA.

Gert Smit: 'NIVRA and NOvAA entered into a covenant at the start of 2002. This contains, in particular, our undertaking to talk jointly with representatives of political parties and the Ministry of Economic Affairs on the assessment of accountants' legislation. We did do this, and much else besides. We collaborated on new independence rules, which will become compulsory for all accountants with effect from 2003. In June, the NOvAA organised an afternoon seminar on the Unusual Transactions Disclosure Act, to which it also welcomed registeraccountants. The seminar attracted a great many participants, and as many RAs as AAs. In August 2002, we issued a joint newsletter for external relations. Moreover we have representatives sitting on each others' technical committees and are working together to revise the code of professional conduct and practice on an international basis. Similarly, we are working on recognition of each others' peer review systems, to prevent audit firms from being visited by peer reviewers from both professional organisations. And we are also working in tandem on the new edition of the Standards on Auditing. NovAA's participation stands to benefit the accounting profession as a whole. At the same time, NIVRA and NOvAA are and will remain two different organisations

with their own specific culture. So we cannot do everything together nor will we always agree on everything.'

### **Communication**

In the Annual report 2000-2001 Ab Mik, Gert Smits's predecessor as Chief Executive, said that the goal of 'more transparent, modern and interactive communication' had not yet been fully achieved, despite the significant steps taken. Major progress has been made in the past year in numerous areas, while further steps forward may perhaps still be possible on a number of points.

'On 1 September 2001, we launched the restyled version of the magazine *'de Accountant'*. The intention was to make the magazine more accessible and more readable by including shorter articles, employing a variety of journalistic styles and publishing extended technical articles on the website instead of in *'de Accountant'*. In February we initiated a survey of the use and appreciation of *'de Accountant'* covering 431 accountants and financial managers who are members of NIVRA. Virtually all subscribers read the magazine and the restyling is considered an improvement on all fronts, with the design being singled out for special praise. A separate place is reserved in *'de Accountant'* for the study course information from VERA Actueel. VERA is NIVRA's Continuing Professional Education Programme. We keep members informed of technical courses by enclosing VERA's study course programme with *'de Accountant'*. Also, we are looking to use the website together with VERA for e-learning. The website, which is still under construction, is likewise greatly appreciated by the members. The number of visitors has risen from 13,000 in September 2001 to 29,000 a month. Virtually all NIVRA publications are now obtainable free of charge via the internet. Wherever possible we also publish interesting information from other sources on the website. This includes reports from various daily newspapers but also extends to the full contents of technical articles, which may for instance have appeared in summary

form in *'de Accountant'*, with links to the relevant source documents. Since the summer of 2002 we have an e-zine to inform over 1,600 subscribers of new developments in the accounting profession. The hyperlinks in the e-zine mean that subscribers are just one mouse click away from new information we have put on the website. The initial response to the e-zine has again been positive.

Good communication with members is also essential in order to involve them more in decision making. The Members' meeting is the highest body within NIVRA and often the forum in which important decisions are taken. But usually no more than 150 or so of the 13,000 members attend a meeting. That's why we decided to combine the Members' meeting with the Accountants' Day. In 2001 a special Members' meeting was combined with the Accountants' Day on ICT and this boosted attendance. Therefore it has been decided to combine the regular Members' meeting for 2002 with the Accountants' Day as well. To further improve members' involvement in decision making, we are looking into the possibility of amending the rules to give them a greater say without them having to attend the Members' meeting.'

The year 2002 revealed the need to improve communication with the public at large. 'The parliamentary investigation into the construction industry has made clear the need for us to explain what can and what cannot be expected from an auditor. In addition, we need to engage in discussions, on behalf of the profession, with relevant parties in society on what the role of the auditor should be, given the divergence of views on this. NIVRA's external newsletter *RA View* has for two years served communication with external target groups, providing government authorities, politics, fellow professional organisations, stakeholders in the financial market and other relations with an overview of current developments in the profession and in the professional organisation.'

### **Streamlining of committees**

'The continued existence of our professional organisation depends to a large extent on the enormous dedication and commitment of all volunteers. Were they able to submit an bill for everything they do, NIVRA's budget would need to be raised by € 8 million. They work on some twenty technical committees, and some of them represent NIVRA in international organisations. These volunteers can rely on the support of the NIVRA office but operate with considerable independence from each other. NIVRA aims to spotlight their activities to a greater extent and promote synergies between them and the Council. We are accordingly working to streamline the committee structure. NIVRA is accountable to its members and the general public and strives to promote the profession in a positive way in the media. The enormous contribution and commitment of its volunteers has long been one of NIVRA's best kept secrets'.

## Review of activities

# Introduction

**A number of different national and international organisations and bodies are active within the accounting profession. In the Netherlands, NIVRA's work is in many instances performed by numerous technical committees. These committees are composed of NIVRA members possessing specific expertise and provide advice on technical issues if requested or on their own initiative to the Council.**

In a European context, the accounting profession is organised in the Fédération des Experts Comptables Européens. The FEE is the platform for discussions on the profession at a European level and the main party to discussions on accounting with the European Commission.

Worldwide, the profession is organised in the International Federation of Accountants. IFAC aims further the profession and to harmonise international regulations. IFAC prepares international policies on accounting, which as a rule are adopted by the associated national professional organisations. Additionally, IFAC is the platform for international discussion of ethical and technical issues.

Both FEE and IFAC have a number of sub-committees on which NIVRA is represented.

## National

### Independence

The Dutch professional accountants' organisations are set to introduce new independence rules at the beginning of 2003. The rules designed jointly with the NOvAA are largely based on a recommendation on independence issued by the EU in 2002. The rules incorporate measures on a wide range of independence issues, including personal independence, setting fees, internal rotation of audit partners and conflicting combinations of audit and other services.

Audits involving a major public interest (public interest entities) will be subject to more stringent

rules than other audit engagements. With the introduction of these new rules, incisive measures will come into effect to address a major area of public concern regarding auditors' work.

### Quality Review

The Quality Review Board examined 205 files in the period April 2001 – April 2002, 146 of which resulted in a judgement and report on the firm reviewed. The large number of smaller firms that has failed to meet the required standards since the inception of peer reviews has occasioned a reassessment of the support provided to the RAs working in such firms. In consultation with the Board, NIVRA's SME platform committee has developed two quality products to enhance quality:

1. a training course Quality Improvement for Small Accounting Firms
2. a Manual for Small Accounting Firms.

In addition, a help desk focusing specifically on quality management has been formed, composed of experienced reviewers accredited by the Board that can be called on by firms seeking external expertise to improve their internal quality management system. In the future, this help desk will play a mandatory part in the process of improvement for firms whose internal quality management system is reviewed and found wanting in terms of the applicable standards.

The Board has devoted a great deal of time to formulating the required adjustments to the peer review system on the basis of the Recommendation from the European Commission, the IFAC and its own practical experience. The review focuses both on technical aspects and compliance with the profession's ethical standards.

NIVRA and NOvAA are working together on the mutual recognition of their peer review systems (accreditation scheme), to prevent mixed RA and AA practices from being subjected to a double peer review.

### **SMEs**

To enhance members' awareness of the products and services offered by the SME platform committee, a folder has been distributed covering these products and services. During the financial year, the emphasis was on providing information on ICT. Together with NIVRA's ICT Knowledge Centre the practice guide 'Safety on the Net' is being prepared (in the context of the government project 'Safe Surfing').

In addition, a survey was developed to measure the appreciation of existing products and services and to probe demand for new products and services.

The external newsletter *MKB RAdar* is issued six times a year and a great deal of attention is devoted to SME information on the NIVRA web site.

### **Audit issues**

In March 2002, the Audit Issues and Standards Committee for the first time opted for interim publication of the Standards on Auditing, incorporating standard 100 'Assurance engagements' and draft standard 860 'The role of auditors' in non-cash transactions'. The Standards on Auditing are normally published biennially, but the importance of these standards prompted interim publication.

Standard 100 translates ISAE 100 Assurance Engagements, setting out a general framework for assurance engagements intended to provide high level assurance. The standard will be extended at a later stage to include a section on assurance engagements intended to provide moderate assurance. Standard 100 is the accounting profession's response to the growing need to enhance the credibility of non-financial information and financial information other than the financial statements. Examples include environmental and sustainability reporting, corporate governance systems, compliance with regulations and legislation.

Draft standard 860 is a specifically Dutch standard aiming to provide practical guidance to accountants faced with non-cash transactions, in which shares are issued by a public or private limited liability company that are paid up by other means than cash (in kind), and on the procedures to be performed and the reports to be prepared in such instances.

This past year also saw the completion of the Documentation project, which addresses the question of the information required to be recorded as a minimum in the auditor's working papers and how to deal with the new standards on electronic filing. The project has resulted in an addition to RAC 230 Documentation (to be published in the next edition of the International Standards on Auditing).

### **Corporate Governance**

The Peters Committee's report on Corporate Governance contained recommendations for companies aimed at 'proper management', some of which addressed systems of internal control in businesses. The assessment of internal controls was beyond the scope of the final report of the Peters Committee. In December 1998, NIVRA developed the Analysis and Assessment Tool for Internal Controls (ABIB), which can be used to identify the strengths and weaknesses in a system of internal controls.

While there is a great deal of interest in ABIB, not many companies have proceeded to implement it yet. Over the past year, efforts were therefore undertaken to further improve ABIB and instructions for the use and implementation of ABIB were prepared based on the results of a survey. The tool itself contains examples by way of illustration and the instructions suggest ideas and solutions to facilitate ABIB implementation. These documents can now be downloaded free of charge from the NIVRA website.

### **Sustainability reporting and audit**

The Audit Issues and Standards Committee has in the past year focused on the 'Sustainability reporting and audit' project aimed at informing accountants on developments in the field of sustainability reporting and providing assurance thereon. The study report: 'Sustainability reporting and assurance engagements', which will be issued at the Accountants' Day 2002, addresses the contents of today's sustainability reports, the problems arising in providing assurance on them and the question to what extent the existing standards on auditing provide guidance for accountants and in which cases 'best practice' can be used.

### **Unusual Transactions Disclosure Act**

In the near future, the scope of the Unusual Transactions Disclosure Act and the Identification Obligation for Service Provision will be amended to implement the EU Directive to prevent money laundering. The amendment will extend the disclosure obligation to a number of professions, including accountants, outside the financial world in the narrow sense. In the past year, NIVRA and NOvAA have jointly and together with other professional organisations held frequent discussions with the Ministry of Justice and the Council of State on the substance of the proposed legislation, which is likely to come into effect at the beginning of 2003. The Ministry of Finance is preparing a brochure for all professions that will be affected by the anti-money-laundering legislation. The brochure includes comments from NIVRA and NOvAA. In addition NIVRA and NovAA are preparing a covering letter setting out how accountants should comply in practice with the Unusual Transactions Disclosure legislation.

### **ICT**

ICT was again the theme of the Accountants' Day 2001. In addition to a programme of plenary sessions, participants were able to choose from six parallel sessions covering, inter alia, privacy issues, Internet & Assurance, XBRL and ICT & Law.

Two practice guides are being prepared on the use of e-mail by accountants and the use of digital signatures in professional practice.

NIVRA and NOREA, the organisation of IT-auditors, have reached agreement on further co-operation with a view to the developments in the field of audit and assurance. The growing complexity and intertwining of organisations and processes and the use of ICT calls for co-operation across disciplines. This applies not only to corporate governance issues (management issue), but likewise to the financial statement audit of organisations employing information technology.

Under the influence and pressure of the market, government and supervisory authorities, developments concerning 'continuous business reporting' have gained significant momentum. Examples include periodically providing financial and non-financial information via internet. EXtensible Business Reporting Language is used as a tool making it easy to electronically select, exchange, analyse and process data. It is essential that accountants are involved in this development, given their responsibility as auditors of the financial statements and their role as assurance providers. In this context, NIVRA has contributed to the creation of XBRL-Netherlands, in which twenty organisations are collaborating to support and coordinate XBRL activities in the Netherlands.

### **Reporting**

The Annual Reporting Committee focuses, in general terms, on annual reporting in the Netherlands and abroad. It works together closely with the Council for Annual Reporting (Raad voor de Jaarverslaggeving), which publishes the Guidelines for Annual Reporting in the Netherlands. NIVRA is one of the participants in the Council. In the year under review, developments in the field of reporting accelerated significantly in particular due to the approval of the European Directive compelling listed companies to apply International

Accounting Standards in their financial statements with effect from 2005. The Dutch government has submitted a legislative proposal to allow other legal entities to apply IAS, and to allow IAS to be applied as early as for the 2002 financial statements. However, whether or not this will actually become possible will depend on the parliamentary debate on the proposal. NIVRA is involved in the translation into Dutch of the reporting rules. Introducing IAS is a further step towards international harmonisation of reporting.

In the financial year, the publications of the International Accounting Standards Board and the interpretations of the IAS, as well as the legislative proposal for applying IAS for Dutch legal entities, were assessed and comments submitted on them. A number of new draft guidelines were published in the year under review, such as the guidelines on shareholders' equity, the directors' report, intercompany profits and not-for-profit organisations.

In the year under review, NIVRA issued 'The year 2000 reported' a report on the yearly review of annual reporting as practiced by Dutch listed companies.

### **Financial institutions**

#### *'Blueprint' working party*

The Insurance Companies and Pension Funds Committee, the Banks, Investment and Securities Institutions Committee and the Audit Issues and Standards Committee created the 'Blueprint' working party. This working party is engaged in formulating basic principles for the role and responsibility of the auditor in relation to the supervision of the financial sector. This is a major topical issue since the supervisory authorities are continually extending the role of the auditor in ensuring compliance with supervisory legislation. This involves not only various complex issues but also a risk of confusion arising in society as to the role of the auditor in sectors in which one or more supervisory bodies are already operating.

#### *Banks, Investment and Securities Institutions*

An evaluation took place in the year under review of the Regulation on Organisation and Control, which provides guidelines and recommendations for the organisation and control of business processes in banks with effect from 1 April 2002. The consequences for the work of the external auditor were considered in this context. This resulted in publication of the Audit Alert 'Auditors' activities in connection with the Regulation on Organisation and Control'. A seminar organised by the Dutch Central Bank (De Nederlandsche Bank) with input from the Banks, Investment and Securities Institutions Committee considered the consequences for the banking industry and accountants.

The Basle Committee, the European central consultative body of banking supervisory bodies, is developing standards that could impact the work of auditors operating in the financial sector (at banks, investment and securities institutions in particular). The Banks, Investment and Securities Institutions Committee is keeping abreast of the standards as they develop and establishing the consequences for Dutch auditors and keeping members up to date.

External auditors acting as compliance officers in a client's compliance systems are required to meet a number of criteria to be able to perform this engagement without unacceptable independence risks. The Banks, Investment and Securities Institutions Committee has listed the circumstances in which acting as compliance officer is and is not permitted. Proceeding from a definition of compliance and an understanding of the compliance work an auditor does in practice, this covered the conditions subject to which an engagement to perform certain compliance tasks can or cannot be accepted.

The Banks, Investment and Securities Institutions Committee is engaged in regular policy discussions with the various external

parties involved (The Dutch Central Bank, Financial Markets Authority, Euronext and the Netherlands Bankers' Association - De Nederlandsche Bank, Autoriteit Financiële Markten, Euronext and Nederlandse Vereniging van Banken) to exchange information and have a say in decisions.

#### *Insurance companies and Pension Funds*

The National Health Insurance Council wants to have the legitimacy monitoring of health insurance funds carried out by the external auditors of the funds. Various pilot studies have been performed since 1998. In 2000-2001 the draft protocol for legitimacy monitoring was developed further. A point that still needs to be discussed is the scope of the review to be performed by the auditor. The further implementation of the audit protocol is being followed by the Insurance Companies and Pension Funds Committee, whose active participation in drafting the protocol ensures its involvement in the end product.

The Cost Allocation Scheme Implementation Foundation prepared a protocol in 1999 for the audit of health insurance companies by the external auditor. Owing to consultation between the Insurance Companies and Pension Funds Committee and the Cost Allocation Scheme Implementation Foundation, the years 1999 and 2000 were considered transitional years, as it proved impossible to introduce the protocol in time. The Insurance Companies and Pension Funds Committee subsequently continued to play a guiding role in consultations on the protocol.

The IASB is developing guidelines on insurance contracts. The Insurance Companies and Pension Funds Committee, represented in the IAS Steering Group by its chairman, is closely following these developments and will take action as required through NIVRA.

The Pensions and Insurance Supervisory Authority of the Netherlands (Pensioen- en

Verzekeringskamer) in its supervisory capacity has adapted the actuarial principles for insurance companies and pension funds to market developments. The Pensions and Insurance Supervisory Authority has submitted the 'Memorandum on New Actuarial Principles' and 'Actuarial and Business Economic Principles for Non-Life Insurance' to NIVRA for consultation, to be followed by the actuarial principles for life insurance companies and pension funds.

Special instructions apply to the health insurance business for computing the technical reserves (Actuariële Voorziening Ziektekosten). These instructions are very difficult to apply in practice. The Pensions and Insurance Supervisory Authority will reassess the use of this set of formulas and may adapt it, and the Insurance Companies and Pension Funds Committee will be a party to the consultations on this.

The Insurance Companies and Pension Funds Committee is engaged in regular policy discussions with all external parties concerned (Pensions and Insurance Supervisory Authority, Health Insurance Board, Cost Allocation Scheme Implementation Foundation, Association of Insurers, Association of Company Pension Funds, Foundation for Corporate Pension Funds, Ministry of Finance and Justice and the Ministry of Social Affairs and Welfare - Pensioen- en Verzekeringskamer, College voor Zorgverzekeringen, Stichting Uitvoering Omslagregeling, Verbond van Verzekeraars, Vereniging Bedrijfspensioenfondsen, Stichting voor Ondernemingspensioenfondsen, ministerie van Financiën en Justitie en het ministerie van Sociale Zaken en Welzijn) to exchange information and influence decision making.

#### **Education**

The Continuing Education of Register-accountants Committee (VERA) contributed in the year under review to the change in the 'Detailed Regulations on continuing

education' which was revised in line with the international IFAC guideline. To emphasise the importance of continuing education for the proper performance of the profession the new Detailed Regulations devote special attention to registration and the monitoring of registration.

The Professional Profile and Training Requirements Committee presented its definitive report in the year under review. This report will serve as a basis for training institutes to design their programmes of training courses to ensure compliance with the requirements included in the profile of the profession and the training profile.

In the context of higher vocational education, the transition from knowledge based to competence based education is being discussed within the professional organisation and the higher vocational education council.

In the course of the past year, VERA organised numerous seminars on topical issues in the profession. Numerous firms made use of in-house courses (especially the 'Summer course') through VERA. VERA organised many conferences, including a fiscal anniversary conference 'Shifting borders between own funds and loan capital' and a conference on 'Creative accounting and fraudulent reporting'. A book was published following the latter conference, and in addition VERA published: 'Thirty on financial reporting in an international perspective'.

#### *Traineeship Board*

The traineeship has regularly come up for discussion in the past year. The Association of Accountancy Students has heavily criticised what it sees as the onerous compulsory traineeship. The traineeship board is however bound to legal obligations relating to the contents of the traineeship. In 2003, the Association of Accountancy Students will conduct a new survey among the students.

#### *Stichting NIVRA-Nyenrode*

With effect from 1 September 2001, NIVRA transferred its training tasks to Stichting NIVRA-Nyenrode. NIVRA is closely monitoring developments through the Supervisory Council, four of whose seven members are supplied by NIVRA. Discussion is focusing on the Bachelor-Master-structure and various operational matters.

#### *Common content*

NIVRA is collaborating in the Common Content programme with seven professional organisations from Germany, England and Wales, France, Ireland, Italy and Scotland on a joint basic training programme for entry level professional accountants.

In line with European legislation, member states are obliged to recognise each others' professional qualifications. But there are substantial differences in terms of basic training, which the development of a joint international basic training programme is designed to eliminate. The draft version of this programme will be issued early in 2003. Differences in regulations on education and examinations are hampering the process of synchronisation.

#### **Public sector accountancy**

June 2002 saw the publication of the report 'Public sector and accountant, jointly assuring the way to the 21st century' by the Public Accounting Committee. This exploration of the future outlines the public sector in the 21st century and the function of the accountant within that sector. The report examines current developments affecting the relation between the public sector and the accountant. This report will be used as a basis for a broad discussion with the target groups concerned on the relation between the public sector and accountants.

In addition, a survey on this topic was performed among a wide group of stakeholders, the results of which will be used in organising a conference early in 2003.

## **International**

### **IFAC Board**

The Board has supported the creation of a Forum of Firms, bringing together accounting firms performing international engagements. The Forum of Firms aims to enhance quality in performing these international engagements. Members of the Forum of Firms voluntarily submit to peer reviews. Secondly, much attention was devoted to the upheaval in the profession arising from the recent scandals. The Board has instituted an independent committee to formulate advice on how to address these issues, which it hopes to receive in the near future.

### **IFAC Public Sector committee**

The IFAC Public Sector Committee has been working for a number of years to develop International Public Sector Accounting Standards. The project is so comprehensive that it has the PSC's exclusive attention. The sponsors of the standards project include large international organisations such as the IMF, World Bank, UNDP and ADB. The first phase of this project is now virtually complete, as part of which 21 standards have been developed for accrual accounting and a single standard for cash accounting. The second phase, which commenced in 2002, will develop a number of standards that are specific to the public sector and will focus extensively on promotional activities to induce authorities to implement the IPSAS.

### **IFAC Ethics Committee**

NIVRA, as part of the Belgian – Dutch delegation on the IFAC Ethics Committee, actively contributes to formulating and updating the international guidelines on professional ethics. These guidelines are laid down in the IFAC Code of Ethics for Professional Accountants, on which the national regulations of the IFAC-affiliated professional organisations of accountants are modelled. In November 2001, an entirely new section on independence was incorporated in this code.

The approach adopted is largely in line with the recent recommendations issued by the European Commission. During the year under review, the committee started a comprehensive review of the code following the same principle-based approach adopted for the new section on independence. The principle-based approach differs diametrically from the US rules-based approach, which lays down everything in separate rules.

### **FEE COUNCIL**

The Fédération des Experts-Comptables Européens is the organisation in which the professional associations of statutory auditors have joined hands at a European level. As such, this organisation is the natural discussion partner for the European Commission. The work of the FEE is performed largely in working parties.

In the past year, the FEE Council focused on preparing implementation of the International Accounting Standards.

Over the past twelve months, the body of regulations has been developed further by setting up an enforcement mechanism designed to ensure uniform application across EU Member States.

### **Sustainability Working Party of the Fédération des Experts-Comptables Européens**

In the year under review, the working party focused especially on the assurance (verification) of sustainability reports and on the role of the auditor in environmental reporting with a view to reducing greenhouse gas emissions.

A paper was issued on auditing sustainability reports. In these reports, companies and other organisations account for their involvement in broad social issues such as environmental pollution, depletion of natural resources, social justice and their contributions to welfare. Large numbers of stakeholders are calling for open and honest reporting on these issues.

Specialised auditors work in tandem with other experts to improve the quality of these reports through advice and audits. Since the nature of these audits differs very significantly from financial statement audits, a number of new technical issues have been submitted for consideration. A second publication will mark the completion of the review in late 2002.

A special type of environmental reporting will emerge with the introduction of tradable emission rights and other financial instruments aimed at reducing greenhouse gas emissions (including CO<sub>2</sub>) and acidifying substances (SO<sub>2</sub> and NO<sub>x</sub>). Owing to the substantial financial consequences involved, these will need to be subject to external audits. This will also impact the financial statements and the audit of those financial statements of the businesses concerned. The working party published a Fact Sheet in the year under review on the role of accountants in auditing greenhouse gas emissions, which concluded that these audits cannot be performed without them. An extensive examination has been initiated that is set to result in a Paper in early 2003.

### **The FEE Small and Medium Enterprises Steering Group**

The FEE SME Steering Group's new business plan aims to make it into a natural focal point for and in this way represent the interests of SMEs in Europe. In the year under review, the Steering Group published the report 'Business Valuation – A Guide for Small and Medium Enterprises'. Also, the Steering Group issued a report entitled 'How to Prepare for a Successful Sale of a Family Business'. And a start was made on an overview of all relevant SME-related publications of affiliated members.

# Key figures, professional organisation

**Number of members at 31/08/2002** **13,201**

## Breakdown of membership at 31 August 2002

	<b>Number</b>	<b>% of active members</b>
Public accountants	4,376	39.3
Auditors in the public sector	1,265	11.3
Internal auditors	531	4.8
Members active in industry and commerce	4,921	44.1
Members active in education	54	0.5

	<b>Number</b>	<b>% of active members</b>
Active members	11,147	84.4
Non-active members	2,054	15.6
<b>Total</b>	<b>13,201</b>	<b>100.0</b>
Male	11,834	89.6
Female	1,367	10.4

## Background of registered members 2001/2002

NIVRA-Nyenrode	67
Erasmus University, Rotterdam	14
Free University of Amsterdam	12
University of Amsterdam	9
University of Tilburg	9
University of Groningen	7
University of Maastricht	2
Other	5
<b>Total</b>	<b>125</b>

## Public accounting firms at 31 August 2002

	<b>Number of firms</b>	<b>Number of RAs</b>	<b>% of RAs</b>
1 RA	563	563	13.7
2 RAs	121	242	5.9
3/5 RAs	109	399	9.7
6/10 RAs	25	199	4.9
11/20 RAs	16	222	5.4
21/50 RAs	6	144	3.5
51/100 RAs	3	169	4.1
101 or more RAs	5	2,165	52.8
<b>Total</b>	<b>848</b>	<b>4,103</b>	<b>100.0</b>

# Abbreviated financial statements

## STATEMENT OF INCOME AND EXPENDITURE

	<b>2001/2002 Revised budget in € 1.000</b>	<b>2001/2002 Actual in € 1.000</b>	<b>2002/2003 Budget in € 1.000</b>	<b>2002/2003 Revised budget in € 1.000</b>	<b>2003/2004 Budget in € 1.000</b>
<b>Total NIVRA</b>					
Income	7,987	7,766	8,799	8,355	9,755
Directly attributable expenses	-4,089	-3,905	-4,488	-4,520	-4,475
	3,898	3,861	4,311	3,835	5,280
Interest/other	352	407	352	415	415
Office expenses	-4577	-5,058	-4,808	-5,185	-5,695
Surplus/(deficit)	-327	-790	-145	-935	0
<b>Professional organisation</b>					
Income	6,342	6,041	7,136	6,605	7,795
Directly attributable expenses	-2,875	-2,648	-3,274	-3,265	-3,195
	3,467	3,393	3,863	3,340	4,600
Interest/other	318	355	318	380	380
Office expenses	-4,112	-4,544	-4,325	-4,655	-5,140
Surplus/(deficit)	-327	-796	-145	-935	-160
<b>VERA-Registeraccountants Continuing Professional Education</b>					
Income	1,645	1,725	1,663	1,750	1,960
Directly attributable expenses	-1,214	-1,257	-1,214	-1,255	-1,280
	431	468	449	495	680
Interest/other	34	52	34	35	35
Office expenses	-465	-514	-483	-530	-555
Surplus/(deficit)	0	6	0	0	160

## Notes

### Actual 2001/2002

The higher deficit was due on the one hand to lower income from membership fees (155) resulting from a lower inflow of new members (500 budgeted and 125 actual) and on the other to higher staff costs (330) due to additional use of seconded and temporarily employed staff for projects in connection with accountants' legislation, CCT and WBP (Wet Bescherming Persoonsgegevens – Personal Data Protection Act).

### Revised budget 2002/2003

The budgeted deficit of 935 is higher by 790 than the budget 2002/2003. The lower inflow of new members has affected income from membership fees and this has accordingly been adjusted downwards by 460. To be able to respond more pro actively to developments in the accounting profession it has been decided to strengthen the technical department and to highlight the profile of the profession. The revised budget incorporates additional budgets to achieve this of 225 for the technical department and 75 for communication.

### Budget 2003/2004

The inflow of new members is expected to continue to be slow in 2003/2004. The budget 2003/2004 allows for the policy adopted in 2002/2003 to achieve a more proactive professional organisation. In addition to trend-based cost increases the budget provides for cost increases relating to the adopted policy (350 technical department and 100 for communication).

### Membership fees

Membership fees have remained unchanged since 1980/1981, except for the fee for public accountants (category A), which was reduced by € 113.45 with effect from 1998/1999. With effect from 2002/2003, membership fees have been increased by nine per cent. This increase will not lead to a balanced budget. The Council proposes to set or increase, as applicable, the fees as follows with effect from 2003/2004 (1 September 2003):

- first, to restore the relation between the fee categories A, B and C to 4 : 2 : 1, with category C as the basis (€ 260);
- then, to increase all fees by 10%.

This adjustment of the fees combined with a pursuit of opportunities to increase income on the one hand and stringent budget control and assessment of all obligations and expenditures with a view to their effectiveness on the other should lead to a balanced budget 2003/2004.

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